

# CSR

'In South Africa  
with its big needs  
... we cannot rely  
on fragmented  
projects only.'

# IS NOT A PROJECT

**Prof Arnold Smit,**  
director: Centre for  
Business in Society at  
USB Executive  
Development and  
associate professor  
extraordinaire at USB.



Serious stock-taking about the state of our planet, society and the economy is needed. According to **Prof Arnold Smit**, business should play a role by means of a broader and more holistic understanding of corporate responsibility. He spoke to **Jaco Leuvennink** about this.

## The many faces of CSR

From corporate philanthropy to an integral part of the wealth-creating process – these are two extremes on the continuum of corporate social responsibility (CSR) activities, explains Prof Arnold Smit, director of the Centre for Business in Society at USB Executive Development (USB-ED) and associate professor extraordinaire at USB.

For some, corporate social responsibility is about corporate philanthropy. For them, CSR is the same as corporate social investment (CSI); in other words, a form of corporate philanthropy. This is still very common. In the United States in particular, traditionally the model was that companies make profits unhindered – except by fulfilling their duty to pay taxes. Then they donate a share of the profits to charitable causes. It was seen as tainting the act if the company received any benefit from the giving.

Others distinguish between the social and environmental responsibilities of a business. Social responsibilities are called CSR while environmental responsibilities are referred to as sustainability.

The biggest fallacy according to Smit is the idea that CSR is something that you take care of as a result of profit, translating

such money into some form of beneficence towards society and the environment. On the contrary, it is about operating the core business in a socially and environmentally responsible way; complemented by investment in communities for solid moral and business case reasons.

“Mervin King (of the King reports on corporate governance) had some wisdom when he said CSR is not about how you spend your money, but about how you make it in the first place.”

CSR is essentially an integral part of the wealth-creating process, which, if managed properly, should enhance the competitiveness of a business and maximise the value of wealth creation to society. In contrast, if CSR is a philanthropic exercise peripheral to the main business, it will always be the first thing to go during hard times.

Smit says we have arrived at a point in history where we need to think seriously about how to proceed from here. “It has become familiar jargon to describe our reality in terms of three interconnecting systems, namely the planet, society and the economy. None of these three are in a healthy state at present and we seem to be in for a precarious future.”

The Rio Earth Summit in 1992 focused on, among others, toxics in production and

waste, alternative sources of energy to replace fossil fuels in the interest of global warming, public transportation to curb emissions, and water scarcity. It has since been followed by many summits. But these challenges have not disappeared; they only grew in severity and importance, and related ones were added.

Announced in 2000, the United Nations Global Compact augured a focus on the role of business to secure a sustainably developed world in collaboration with other sectors of society. Four themes were identified: human rights, labour, the environment and anti-corruption.

“The point is that business does not happen alongside any of these developments. Business does not sit on the sidelines of the economy, society and environment as interconnecting systems, nor does business sit in the economic system alone. Business is embedded in all three. It is dependent upon the health and resilience of all three and will be negatively impacted by risks in any of the three,” says Smit.

## So what is the essence of CSR?

According to Smit, definitions do not necessarily describe the core of CSR.

Instead, he is interested in how business >





## Our espoused position is a holistic, integrated, strategic and ethical understanding of what corporate responsibility is about.

entities understand their relations with the economic, social and environmental spheres within which they operate and how they construct and manage these relations.

"First, we have to choose between shareholder primacy versus stakeholder-inclusive value-creating schools of thought. If we accept that companies have responsibilities beyond mere profit-making, then what responsibilities do we talk about?

"Again, two schools of thinking can be distinguished; the one looks at CSR from a minimalistic (corporate philanthropic) point of view, namely to do good things for society as the result of being profitable. The other is a more integrated and holistic point of view, namely one that connects with the very purpose of business.

"If we accept the more holistic version, then the question is: What responsibilities are included? One of the leading minds on CSR, Archie Carroll, is well known for his four-fold set of societal expectations: economic, legal, ethical and discretionary.

"Personally, I like the idea of CSR as four integrated corporate practices – namely workplace, marketplace, environmental and community practices – that seems to gain ground nowadays," explains Smit.

Smit maintains that in real life, there seems to be a split between theory and practice. Our espoused position is a holistic, integrated, strategic and ethical understanding of what corporate responsibility is about. The dominant position in corporate practice is still one in which CSI

is equated with CSR, fuelled by a misunderstanding of the black economic empowerment codes on socio-economic development. Many CSR efforts in South Africa do not result from voluntary or indirect business decisions, but are the product of corporate compliance with BEE legislation and codes.


### It's not about bending down ...

"Too often, doing good is about bending down and investing in some social cause. We need to replace a financial cycle-determined and budget-determined Net Profit After Tax project mindset with a more holistic and integrated understanding of CSR. In doing so we perhaps need to take the S out of CSR."

Smit stresses that what he does see in the groups that he works with, is a more mature, more progressive understanding of the sustainability challenges of our time. This, in turn, leads to a better understanding of the intrinsic importance of responsible corporate practice along the whole value chain of a business dealing with the full scope of stakeholder expectations.

### ... it's about working together

"We also seem to grow in our understanding of the necessity of collaboration and partnerships between the sectors in society – business, government and civil society."

Smit's message is that business should challenge government and civil society to work together according to their capacity and role so that the idea of shared value could be promoted and the vulnerability of our social, environmental and economic systems mitigated. In South Africa with its variety of big needs in areas such as education, health care, entrepreneurial development and economic equality, we cannot rely on fragmented projects only. 

## KING III: CLARIFYING CSR FOR SOUTH AFRICAN BUSINESS

*What is happening in South Africa in terms of corporate social responsibility? King III, as South Africa's corporate governance code, brings significant clarity to the meaning of CSR and a number of related concepts.*

*King III states: 'Corporate responsibility is the responsibility of the company for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour that: contributes to sustainable development, including the health and welfare of society; takes into account the legitimate interests and expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the company and practiced in its relationships.'*

*This King III definition is echoed in the new Companies Act, specifically in terms of the duties and responsibilities of the social and ethics committees of company boards.*

**COMMENT HERE** [www.usb.ac.za/agenda](http://www.usb.ac.za/agenda) or [agenda@usb.ac.za](mailto:agenda@usb.ac.za)

# CSR:

## FROM THE FIRST CRACKS TO TODAY'S CONFUSION

**1949** As early as 1949, landmark publications warned of looming disaster should the world carry on like before, says Prof Arnold Smit.

**1960s** The term *corporate social responsibility* (CSR) came into common use in the 1960s with the broader idea of stakeholders, referring to all those, apart from shareholders, on the receiving end of an organisation's activities. The aim of CSR was that companies should do something to have a positive impact on stakeholders like consumers, employees, communities and the public. Later, the environment also became a prominent stakeholder. Yet, some critics claimed that executives' first duty is to maximise returns for shareholders. Where the interests of the company and society are aligned, society can benefit. But this would be merely incidental. Governments should worry about society and the environment, and introduce laws, taxes and other incentives so that companies can operate without having to worry about such things.

**1987** A pivotal publication was the so-called *Brundtland Report* of 1987 (officially titled *Our Common Future*) which created the guiding definition of sustainable development, meaning 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.

**2013** Most big corporations profess to adhere to CSR principles. Yet, there is a significant amount of conceptual confusion about corporate social responsibility.



On the plains of Africa things can change in an instant. The greatest leaders have mastered the skill to rally their herds and provide direction during critical times.

Lead yourself. Lead others. Lead your team. But make sure you lead with our

## Postgraduate Diploma in Leadership.

*We know Africa, we train its leaders*

**Apply now.**

[www.usb.ac.za/leadership](http://www.usb.ac.za/leadership)

021 918 4246

[leadership@usb.ac.za](mailto:leadership@usb.ac.za)



University of Stellenbosch Business School



We have all 3 international accreditations – AACSB, EQUIS and AMBA. USB is ranked Top Business School in South Africa for 2013 by PMR.africa.